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SUBMISSION TO

THE ONTARIO COMMITTEE ON TAXATION

By

THE ASSOCIATION OF CANADIAN DISTILLERS

The Association of Canadian Distillers was formed in 1947. It is a non-profit organization whose purpose is to foster and improve the industry's relations with government, business and the public. Any company engaged in the distilling of alcoholic beverages in Canada is eligible for membership in the Association. The following corporations, most of which have subsidiary companies, are members:

Alberta Distillers Limited

Canadian Schenley Limited

H. Corby Distillery Limited

Distillers Corporation - Seagrams Limited

W. & A. Gilbey (Canada) Limited

L. J. McGuinness & Company Limited

Meagher's Distillery Limited

Melchers Distilleries Limited

Hiram Walker-Gooderham & Worts Limited

NATURE OF THE DISTILLING INDUSTRY

A Legitimate Manufacturing Industry

The distillation of alcoholic beverages is a legitimate manufacturing operation. The distilling industry is comparable to other manufacturing operations with several important differences. In the first place, the entire production process is carried on under close supervision of the federal government beginning from the receipt of grain at the distillery through the stages of fermentation, distillation, ageing, blending, bottling and shipping in bond.

In the second place, the Canadian market for distilled beverage spirits is confined to the liquor boards and commissions of the ten provincial governments and the federal territorities. No other manufactured product in Canada is marketed by the producer under such extreme conditions of oligopsony, or by the retailer under conditions of complete monopoly. It is to be expected that the distillers' profits, under such conditions, are adversely affected.

In the third place, advertising is closely regulated by provincial governments. Federal legislation prohibits liquor advertising on radio and television. Five provinces prohibit all liquor advertising.

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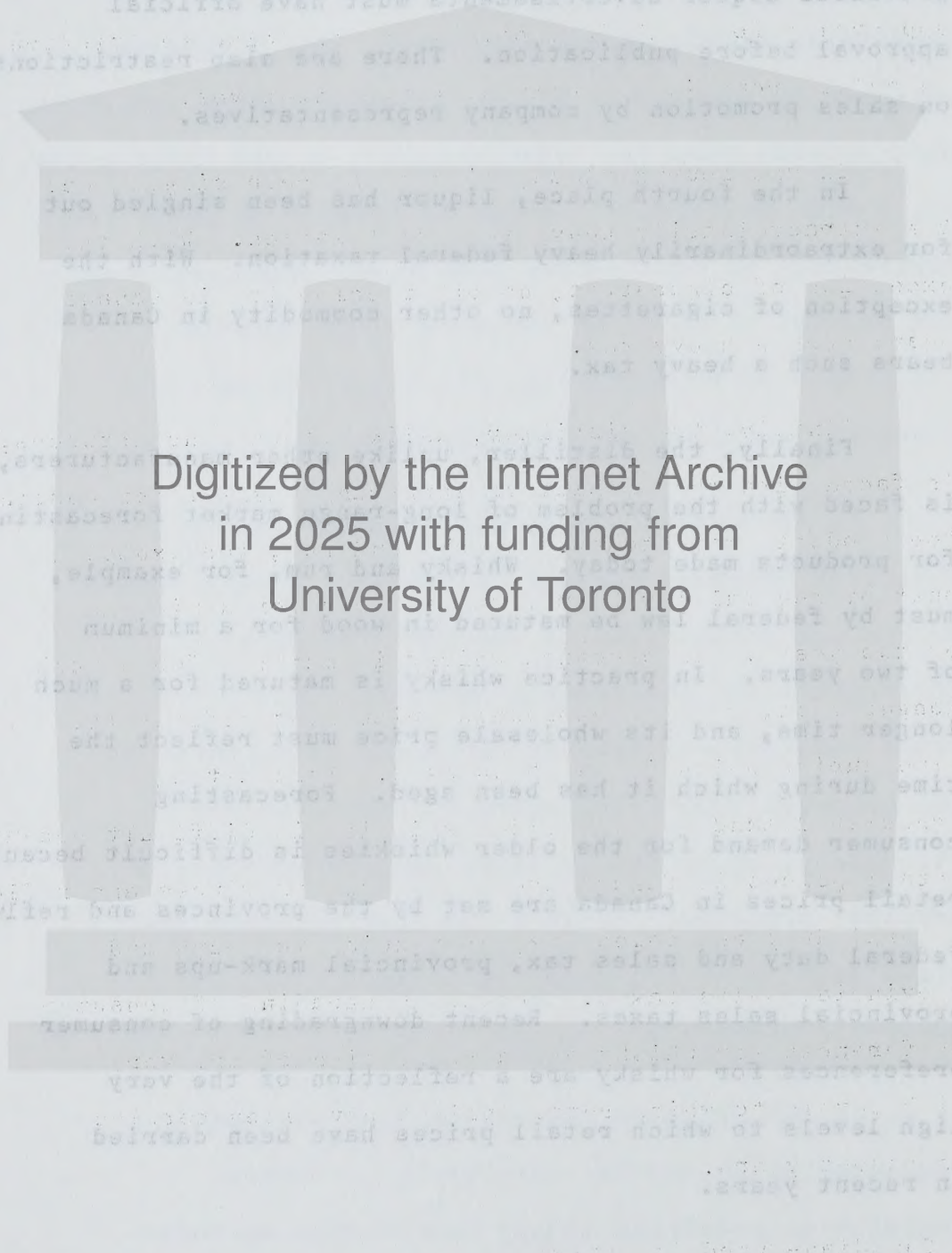
In the others the restrictions vary from the allowance of only institutional advertising to the advertising of brand names without prices. In some provinces liquor advertisements must have official approval before publication. There are also restrictions on sales promotion by company representatives.

In the fourth place, liquor has been singled out for extraordinarily heavy federal taxation. With the exception of cigarettes, no other commodity in Canada bears such a heavy tax.

Finally, the distiller, unlike other manufacturers, is faced with the problem of long-range market forecasting for products made today. Whisky and rum, for example, must by federal law be matured in wood for a minimum of two years. In practice whisky is matured for a much longer time, and its wholesale price must reflect the time during which it has been aged. Forecasting consumer demand for the older whiskies is difficult because retail prices in Canada are set by the provinces and reflect federal duty and sales tax, provincial mark-ups and provincial sales taxes. Recent downgrading of consumer preferences for whisky are a reflection of the very high levels to which retail prices have been carried in recent years.

A Canadian-Owned Industry

With the exception of two member companies of the Association of Canadian Distillers, the industry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is Canadian-owned, unlike many other large manufacturing industries which are foreign-owned or controlled. The distilling industry has more than 60,000 Canadian shareholders.

Whisky A Major Export

Canadian whisky is by far the most important of the industry's exports (more than 99 per cent in 1962). The growth trend of whisky exports has been strong, an increase of nearly 170 per cent in the last 15 years. An increasing proportion of the whisky exported has gone to the United States market (about 94 per cent in 1962). The figures are shown in Table I.

TABLE I

Exports of Canadian Whisky

(000 proof Gallons)

	To the U.S.A.	% of Total	Total Exports	% Increase
1947	2,828	81.3	3,478	-
1952	4,960	78.8	6,296	81.0
1957	6,779	88.7	7,642	21.4
1962	8,787	93.8	9,370	22.6
% Increase 1947-62		210.7		169.4

Source: Trade of Canada, Exports by Commodities, D.B.S.

In terms of all exports the trend of whisky has run far ahead of the total. The Dominion Bureau of Statistics index of physical volume of exports (using 1948 as the base year) was 158.3 in 1962. A similar index for whisky exports was 252.1 in 1962. The dollar value of whisky exports (exclusive of excise duty and sales tax) was $84.9 million in 1962. In terms of Canada's balance of international payments, whisky exports more than paid for Canadians' purchases of outstanding foreign securities in 1962.

Importance of the Industry in Ontario

The distilling industry is concentrated in Ontario more than in any other province. In 1961 there were 8 distilleries in Ontario out of a total of 21 in all Canada. There were 2,240 distillery employees in Ontario (51.8 per cent of the Canadian total), and they were paid $10,864,000. Ontario distilleries consumed $32,086,000 of materials (at cost) in 1961, and spent in addition more than $1 million for fuel and electricity. D.B.S. (Distilleries 1961, pp. 8,9) reports the value of production and shipments (before excise duty and sales tax) from Ontario distilleries in 1961 was $95,832,000. Closing inventories of Ontario distillers in 1961 totalled $70,105,000, more than half of the Canadian total.

Retail Sales

There has been a strong upward trend of retail sales of spirits in Canada. The growth in Ontario has been even stronger than the national growth. Between 1954 and 1962 retail sales of spirits in Ontario have increased by 56.3 per cent, compared to a 42.1 per cent national increase. This may be partly, but not entirely, attributed to a greater than national population increase in Ontario, where population grew by 24 per cent between 1954 and 1962, compared to a national increase of 21.5 per cent. Retail sales of spirits per capita of population 20 years of age and older in Ontario were 1.75 imperial gallons in 1962, compared with a national average of 1.49 imperial gallons. Neither can it be related directly to relative changes in net disposable personal income. Disposable income in Ontario between 1954 and 1962 rose somewhat less than for Canada as a whole (63.3 per cent in Ontario, 65.3 per cent in Canada).

Another significant point is the growing relative importance of retail sales in Ontario to the national total. In 1954 Ontario sales were 38.1 per cent of the national total, and have been in excess of 40 per cent in every year since 1958.

Detailed figures are shown in Table II.

TABLE II

Retail Sales of Spirits in Ontario and all Canada

(000 Imperial Gallons)

	Ontario	% of Total	% Annual Change	Canada	% Annual Change
1954	4,295	38.1	-	11,282	-
1955	4,540	38.3	+ 5.7	11,862	+ 5.1
1956	5,022	38.7	+10.6	12,968	+ 9.3
1957	5,166	38.7	+ 2.9	13,363	+ 3.0
1958 *	5,987	41.6	+15.9	14,397	+ 7.7
1959 **	5,758	40.2	- 3.8	14,335	- 0.4
1960	6,009	41.0	+ 4.4	14,661	+ 2.3
1961	6,468	42.1	+ 7.6	15,361	+ 4.8
1962	6,713	41.9	+ 3.8	16,028	+ 4.3
% Increase 1954-62			+56.3		+42.1

* Seven-week beer strike in Ontario

** Federal excise duty increased from $12 to $13 per proof gallon

There has been a relatively constant relationship between retail sales of beverage spirits and net disposable personal income, although the trend both in Ontario and in all Canada is showing a slight decline. In the period 1954-1963 retail sales in Ontario ranged from 0.65 imperial gallons per $1,000 of disposable income in 1956 and 1958 to 0.61 imperial gallons in 1960 and 1962. For all Canada the range varies from a high of 0.66 imperial gallons per $1,000 of disposable income in 1954 to a low of 0.57 imperial gallons in 1962. There is a marked correlation between the Ontario and national series, distorted in Ontario in 1958 by a beer strike. The downward drift in the national trend has its origin in the increase of federal excise duty from $12 to $13 per proof gallon in 1959 which carried retail liquor prices to new all-time highs. In earlier years the national expenditures on liquor related to personal income were somewhat higher than in Ontario. Since the price increases following the increase in federal duty in 1959, the national figure has been lower than the figure for Ontario. The figures are shown in Table III.

TABLE III

Gallonage Retail Sales of Spirits Related to

Net Disposable Personal Income

	ONTARIO			CANADA		
	Income ($ Millions)	Retail Sales (000 Imp.Gals.)	Gallonage Sales per $1,000 of Income	Income ($ Millions)	Retail Sales (000 Imp.Gals.	Gallonage Sales per $1,000 of income
1954	6,729	4,295	.64	16,984	11,282	.66
1955	7,219	4,540	.63	18,239	11,862	.65
1956	7,774	5,022	.65	20,153	12,968	.64
1957	8,536	5,166	.61	21,274	13,363	.63
1958 *	9,153	5,987	.65	22,880	14,397	.63
1959 **	9,569	5,758	.60	23,948	14,335	.60
1960	9,885	6,009	.61	25,051	14,661	.59
1961	10,363	6,468	.62	25,995	15,361	.59
1962	10,993	6,713	.61	28,080	16,028	.57

* Seven-week beer strike in Ontario

** Federal excise duty increased from $12 to $13 per proof gallon

Cost-Price Squeeze

Most manufacturers have been caught in a cost-price squeeze in varying degrees during the inflationary post-war period. Many of them have been able to offset increased costs in large part by increasing their wholesale prices. The D.B.S. wholesale price index for all manufactured goods in September was 155 per cent greater than its pre-war level.

Distillers' costs of labour, raw materials and equipment have increased proportionately to the costs of other manufacturers - yet they have not considered it possible to increase their wholesale prices to offset increased costs. Retail prices have been carried so high by sharp increases in taxes (the federal excise duty is now $13 per proof gallon in relation to its wartime high of $11) that the distiller is constantly aware of pricing himself out of a highly competitive market and intense competition for the consumer dollar. A distiller's wholesale price increase results in a substantially greater retail price because of the percentage mark-up taken by the provinces.

Distillery wholesale prices have increased by an average of only 20 per cent since before World War II, compared to the 155 per cent increase in wholesale prices of all manufactured goods. The Canadian distiller must absorb his increasing costs or try to offset them by increased efficiency. The industry has made important strides towards reducing costs by constant improvements in internal efficiency. Nevertheless, profits from Canadian sales have been low, and the return on investment is not as much as the return on a high-grade government bond.

Impact of Taxation

Distilling company profits are overtaxed, as are all corporation profits. The present tax rate on profits in excess of $35,000 is 52 per cent in Ontario, of which the federal government receives 41 per cent, with 11 per cent going to the province. Provincial rates in Ontario and Quebec are 1 or 2 per cent higher than in the other provinces, and the outlook is one of even a higher rate in Ontario. In addition, distillery products have been singled out for extremely heavy taxation in relation to other consumer goods. The federal excise duty on Canadian spirits is at its historic high, $13 per proof gallon.

There have been marked increases in the rate of federal excise duty from $4 per proof gallon in 1935, to $7 in 1939, $9 in 1942, $11 in 1943, $12 in 1950, to its present level of $13 established in 1959, an increase of 225 per cent over its pre-war level.

The heavy tax discrimination against beverage spirits in relation to beer and wine (competing products) is shown in terms of the duty and tax on absolute alcohol contained in these three beverages. Alcohol is the common denominator, and it is the alcohol that is taxed. The federal government's excise revenue on a gallon of absolute alcohol contained in spirits, beer and wine is as follows:

Spirits	$22.75
Beer	$ 7.20
Wine	$ 3.13 *

* This figure is an average because different wines have various proof strengths

One of the anomalies in Canadian taxation is the pyramiding of the federal sales tax on excise duty. The sales tax is computed on the duty-paid value of spirits, beer and tobacco products, but it is not pyramided in the tax-paid value of wine. In the case of spirits, the 11 per cent federal sales tax is computed on the wholesale price including the $13 per proof gallon excise duty. The effective rate of sales tax is accordingly about 32 per cent instead of the statutory rate of 11 per cent.

The impact of tax pyramiding on the provincial liquor boards and the consumer is shown in Table IV.

TABLE IV

Example of Pyramiding Federal Sales Tax on Excise Duty

1963 Rates

(per case of 1 dozen 25 ounce bottles of whisky)

	Cost to Province if Sales Tax were Levied on In-Bond Value	Cost to Province Under Tax Pyramiding
Distillery Price	$ 8.40	$ 8.40
Excise Duty	17.04	17.04
	25.44	25.44
11% Sales Tax	.93	2.80
Cost to Province	26.37	28.24
Retail Price if Provincial Mark-up is 70%	44.82	48.00
Provincial Sales Tax @ 4%	1.80	1.92
	46.62	49.92
Extra Cost to Consumer		3.30

Note: Since the provincial governments make a practice of rounding retail liquor prices to the nearest 5 cents, under the mark-up assumption in the above table, the cost of pyramiding to the consumer amounts to approximately 28 cents per bottle. In addition to the federal sales tax there are in 8 of the 10 provinces provincial retail sales taxes ranging from 3 to 5 per cent.

A further example of the extraordinary levels of taxation of distillery products is the amount of federal taxes and provincial taxes and revenues in relation to the distiller's in-bond wholesale selling price. Federal and provincial revenues from a low-priced Canadian whisky have reached astronomical figures ranging from 515.7 per cent to 635.7 per cent on in-bond prices in nine provinces. No other products in the Canadian economy are subjected to anything like this weight of taxation.

The very sharp rise in retail prices of spirits resulting from increased taxes has resulted in a major decline in the distillers' share of the consumer dollar spent on spirits. Before World War II the distiller received more of the consumer sales dollar than the federal government. Today the distiller receives an average of only 16 cents of a dollar spent on a low-priced whisky, compared to 29 cents in 1938. The average distribution of the retail sales dollar for Canadian whisky in Canada is shown in Table V.

TABLE V

Average Distribution of the Consumer Dollar

Spent on a Low-Priced Canadian Whisky in Canada

	1938	1963	% Change
Federal Government	.26¢	.36¢	+ 34.6
Provincial Government	.43	.45	+ 9.3
Distillers	.29	.16	- 44.3
Freight	.02	.03	-
Total	1.00	1.00	-

Note: In 1935 the disparity was still greater. The distiller then received 35 cents of the consumer dollar.

It is to be noted that the federal share of 36 cents of the dollar is for the most part net to the government, apart from costs of supervision and collection. The provincial share of 45 cents is gross profit from sales by provincial governments, out of which is paid overhead, warehousing and merchandising expenses. The 16 cents received by the distiller must cover all capital and production costs, overhead, sales costs, and the dividends paid to the chareholders.

Retail Prices

It has been indicated already that higher taxes have carried retail prices of spirits to all-time highs. It will be seen in Table VI that a 25 ounce bottle of whisky selling in Ontario in 1935 for $1.50 is now selling at $3.80. The price has outrun substantially the consumer price index. Whisky in 1963 is 153.3 per cent higher than in 1935, while the consumer price index averaged only 121.8 per cent higher than in 1935 for the first ten months of 1963.

TABLE VI

Comparison of Price Index of a Low-Priced Canadian Whisky in Ontario and the Consumer Price Index

1935 = 100

	Retail Price 25 oz. Bottle	Price Index of Whisky	Consumer Price Index
1935	$ 1.50	100	100
1939	1.90	126.7	105.5
1942	2.35	156.7	121.7
1943	2.85	190.0	123.9
1950	3.15	210.0	171.8
1957	3.50	233.3	203.5
1963	3.80	253.3	221.8 *

* Based on average for 10 months.

High Prices Have Caused Consumer Downgrading

The price increases caused by the increase in the federal excise duty in 1959 have resulted in a change in consumer buying habits from the higher to the lower-priced brands of whisky. The trend in Ontario has not been so pronounced as in Manitoba, Saskatchewan and British Columbia, the three other provinces reporting sales by price categories during the period under review. Category A and B whiskies are the highest-priced, Category C is in a medium price range, and Categories D, E and F are the lower-priced whiskies. Thus, at current prices in Ontario, Category A and B whiskies retail from $4.90 to $7.50 per 25 ounce bottle (including provincial sales tax). A Category C whisky retails at $4.50 to $4.65 and the price range of Categories D, E and F is $3.80 to $4.15.

It will be seen in Table VII that in Ontario the relative importance of Category A and B whiskies declined steadily between 1958 and 1961, but recovered somewhat in 1962. Category C whiskies have declined relatively ever since 1958, while the relative importance of Categories D, E and F has gained in every year. Total gallonage of A and B whiskies has increased by 8.6 per cent since 1958, Category C has declined by 15.8 per cent, and the lowest-priced group has gained by 21.6 per cent in the 1958-62 period.

Category C (the medium-priced) whiskies have felt the full brunt of the price increases, and in the last three years their volume has been less than that of the higher-priced whiskies.

TABLE VII

Retail Sales of Canadian Whiskies by Price Categories

Ontario, 1958-1962

(imperial gallons)

	A & B*	% of Total	C**	% of Total	D,E,F,***	% of Total	Total
1958	605,850	16.2	699,918	18.7	2,430,544	65.1	3,736,312
1959	569,478	15.9	605,561	16.9	2,399,218	67.2	3,574,257
1960	580,316	15.5	573,885	15.3	2,586,363	69.2	3,740,564
1961	605,406	15.0	597,344	14.8	2,825,633	70.2	4,028,383
1962	658,167	15.7	589,117	14.0	2,956,583	70.3	4,203,867
% Change 1958-62	+8.6		-15.8		+21.6		+12.5

* A and B are the highest-priced whiskies

** C is a medium-priced whisky

*** D, E and F are the lowest-priced whiskies

The sales pattern has been different in the other three reporting provinces, Manitoba, Saskatchewan and British Columbia. Composite figures are shown in Table VIII. Category A and B whiskies have declined by 14 per cent since 1958, and despite a small recovery in 1962 their relative importance is considerably less than it was in 1958. Category C whiskies have also declined (by 4.4 per cent) and their relative importance has slipped from 14.4 per cent of the total in 1958 to 12 per cent in 1962. The switch away from the higher and medium-priced to the lower-priced whiskies is most pronounced in these three provinces. Sales of the lowest-priced whiskies have increased by 25.5 per cent since 1958 at the expense of the medium and higher-priced brands.

TABLE VIII

Retail Sales of Canadian Whiskies by Price Categories

Man., Sask., and B.C., 1958-62

(imperial gallons)

	A & B	% of Total	C	% of Total	D,E,F	% of Total	Total
1958	302,738	17.6	247,201	14.4	1,168,490	68.0	1,718,429
1959	297,795	16.9	244,408	13.9	1,217,660	69.2	1,759,863
1960	261,413	14.8	240,445	13.6	1,262,212	71.6	1,764,070
1961	232,676	13.1	229,186	12.9	1,313,833	74.0	1,775,695
1962	260,420	13.3	236,350	12.0	1,466,571	74.7	1,963,341
% Change 1958-62	-14.0		-4.4		+25.5		

The point to be noted in connection with the switching from higher to lower-priced whiskies is that the profits of provincial liquor boards and commissions are affected adversely because their mark-up is a percentage of wholesale cost. Similarly the distillers' profits are reduced because of the lower profit margins on the lower-priced whiskies.

The Ontario Business Tax is Discriminatory

The Ontario Assessment Act of 1904 provides for a special business assessment based on a percentage of the value of land occupied for business purposes. Land is defined to include buildings, and machinery and fixtures erected or placed upon, in, over, under or affixed to the land. From its inception the business tax assessment ratio has been graduated in accordance with the type of business. The ratio ranges from 10 per cent on supervised car parks, to 25 per cent on retailers, clubs and theatres, 35 per cent on newspaper publishers, 50 per cent on department stores, 60 per cent on general manufacturers, 75 per cent on chainstores, wholesalers and brewers, to 150 per cent on distillers.

The ratio graduation of business tax assessment has no basis in logic, taxable capacity or tax equity. We maintain that distilleries should pay business taxes on the same basis as other manufacturing industries. In the first place, insofar as municipal services and benefits are concerned, a distillery expects, requires and receives no more than any other manufacturing plant which pays less than one half of the amount paid by the distillery toward the cost of those services and benefits. It seems grossly unfair that Ontario distilleries would pay less than half of the amount of municipal business taxes they are now paying if they were to convert their plants to produce soft drinks, cosmetics, T.V. sets or some other non-alcoholic luxury product.

In the second place, when the business tax was introduced in Ontario in 1904 it is possible that the profitability of the Ontario distilleries was sufficiently higher than other manufacturers to justify the exorbitant rate of 150 per cent of assessment. If it were so at that time, it certainly is not so today. Although export sales volume has grown in recent years, now accounting for over one half of the output of Canadian distilleries, our business with Canadian Liquor Boards has been far from satisfactory in the past ten years. Since World War II price controls were lifted, the retail prices of our products have been raised many times by federal and provincial taxation. This rash of tax-price increases which in the past year seems to have reached epidemic proportions, has carried liquor prices to the point of diminishing returns, and beyond it in some provinces.

Finally, we submit that social habits and mores have changed to such an extent that today there is no justification whatsoever for discrimination against distilleries, as compared with other manufacturing plants, in respect of business tax assessment. A generation ago, our industry carried the burden of harsh legislation and taxation as a result of the efforts of minority groups seeking to place the status of the consumer of our products closer to social ostracism than to first-class citizenship.

Today, with the broadening of the Liquor Control Acts providing licensed premises and many more retail outlets throughout the country, 70 per cent of the adult population are recorded by public opinion poll as consumers of our products. We contend that it is grossly unfair to the shareholders of our member firms (now over 60,000 in Canada) and to the many thousands of employees in our plants and our supply firms, for our industry to have to continue to carry a burden of taxation at all levels that is so far out of proportion to the taxation of other widely-accepted luxury products.

The Association of Canadian Distillers has made repeated submissions for relief from the highly discriminatory basis of business assessment on distilleries at 150 per cent of the "land" occupied for carrying on their business. In March 1963 the Ontario Select Committee on the Municipal Act and Related Acts recommended (Second Interim Report, p.61) in part as follows:

"(1) That the businesses be divided into four categories and the percentages fixed at 25, 50, 60 and 75

(2) That the basis of calculating business assessment remain unchanged except as follows:

(a) distillers at 75 per cent;

(b) wholesale merchants at 50 per cent;

(c) retail coal or fuel dealers at 25 per cent;

(d) all land used for the parking of cars at 25 per cent (exemption for employee parking area allowed under section 9 (2) to be continued;

(e) that every person occupying or using land for the purpose of an apartment building containing more than six self-contained dwelling units shall be assessed for business purposes for a sum equal to 25 per cent of the assessed value of the land occupied or used for such apartment.

(f) all businesses assessed at 35 per cent and 30 per cent be reduced to 25 per cent and businesses presently assessed at 25 per cent remain unchanged..."

Although these recommendations represent an improvement over the present legislation, the 75 per cent figure for distilleries is still discriminatory in terms of the tax treatment of other manufacturers at 60 per cent. The traditional discrimination against the distilling industry is perpetuated by the Select Committee, despite the fact of extremely heavy federal duties and the industry's relatively low profit margin on Canadian operations. It is urged that the Ontario business tax be placed on a uniform basis for all manufacturers, including distillers.

Liquor Revenues are Important in Provincial Budgets

The relative importance of liquor revenues in Ontario and in all ten provinces is shown in Table IX. It will be noted that liquor revenues have been consistently more important in Ontario than in Canada as a whole in all of the years examined, although their relative importance has been declining, largely as a result of larger revenues received from the federal government. In fiscal 1962, Ontario liquor revenues were 7.6 per cent greater than the general sales tax and more than double the revenue from succession duties.

TABLE IX

Provincial Government Revenue from Control and Taxation of Alcoholic Beverages Related to Total General Revenue

Fiscal Years Ended March 31

($000)

	ONTARIO			ALL PROVINCES		
	Liquor Revenue*	Total General Revenue**	Liquor as % of Total	Liquor Revenue*	Total General Revenue**	Liquor as % of Total
1952	44,156	395,253	11.2	143,644	1,369,200	10.5
1958	68,510	658,976	12.3	207,023	2,274,900	9.1
1959	73,145	732,306	10.0	215,869	2,517,200	8.6
1960	78,030	778,450	10.0	227,290	2,464,600	9.2
1961	81,787	833,128	9.8	235,376	2,552,100	9.2
1962	83,957	910,160	9.2	248,250	2,817,400	8.8

* Source: The Control and Sale of Alcoholic Beverages in Canada 1961, D.B.S.,p.5.

Data include earnings on sales, provincial sales taxes on liquor, licenses and permits, fines and confiscations. Earnings on sales in 1958 were $82,821,000 in Ontario, and $243,310,000 in all ten provinces.

** Source: Financial Statistics of Provincial Governments, D.B.S.

Sales of alcoholic beverages and net income from sales are shown for Ontario and Canada in Table X.

TABLE X

Sales of Alcoholic Beverages and Net Income from Sales

Ontario compared with Canada

Fiscal Years Ended March 31

($000)

	ONTARIO				CANADA			
	Sales	Net* Income	% Increase	% Increase to Sales	Sales	Net* Income	% Increase	% Increase to Sales
1957	292,483	43,305	-	14.8	770,829	153,608	-	19.9
1958	316,704	46,762	8.0	14.8	819,463	164,319	7.0	20.1
1959	326,088	53,443	14.3	16.4	846,105	175,092	6.6	20.7
1960	350,211	53,127	9.9	15.2	896,942	179,940	2.8	20.1
1961	360,867	55,269	4.0	15.3	925,134	186,163	3.5	20.1
1962	371,599	56,802	2.8	15.3	960,593	196,950	5.8	20.5
% Change 1957-62	31.2				28.2			

Source: The Control and Sale of Alcoholic Beverages in Canada, D.B.S.

* After provision for depreciation on fixed assets and capital expenditure met out of operating income.

The annual rate of increase in net income in Ontario has fallen sharply since 1959 and 1960, as a result of the greater relative importance of low-priced whiskies. There is a much larger profit from the sale of spirits than from the sale of beer and wine, but the figures are not available. The pattern is reflected, however, in Ontario figures for fiscal 1958, 1959 and 1960, as shown in Table XI.

TABLE XI

Sales of Spirits in Ontario as Percentage of Total Sales, and Percentage of Net Income to Sales

Fiscal Year	Spirits as % Total Sales	Net Income as % Total Sales
1958	43.4	14.8
1959	48.6	16.4
1960	44.4	15.2

The seven-week beer strike in Ontario in the fiscal year 1959 increased the relative importance of spirits sales and this increase was accompanied by a significant increase in the return on the sales dollar in that year. A year later, when the relative position of spirits sales dropped, there was a corresponding decline in the return on the sales dollar. When compared to the distiller's return on his sales dollar, provincial returns are substantially higher. One Canadian distilling company relying for the most part on the Canadian market reported about a 2 per cent return on the sales dollar in 1963 before income tax. The only other Canadian company largely dependent on the Canadian market reporting sales showed a return of about 9 per cent before tax in 1963.

Conclusions and Recommendations

1. The sharply increased federal excise duty and sales tax have carried retail prices of spirits to new all-time highs. The increase has been substantially greater than the rise in the general retail price index.

2. The higher price of spirits has been accompanied by
   (a) a decline in the proportion of net disposable personal income spent on spirits in Ontario;
   (b) a shift away from consumer purchases of high and medium-priced whiskies to the lower-priced brands, less profitable to the Province of Ontario;
   (c) a substantial decline in the profit margin of the Liquor Control Board of Ontario.

3. The pyramiding of federal sales tax on the excise duty costs the L.C.B.O. $1.87 per case of a low-priced whisky.

4. There has been unprecedented federal tax discrimination against distillery products and the consumers of them, even though the distilling of alcoholic beverages is a legitimate manufacturing business and 70 per cent of the adult Canadian population are consumers of alcoholic beverages.

5. The Ontario Assessment Act discriminates heavily against the distilling industry by basing the municipal business tax on 150 per cent of the value of property occupied compared to 60 per cent for nearly all other manufacturers.

6. It is, therefore, recommended that:

(a) the basis for Ontario municipal business tax be set at 60 per cent of the value of property occupied by distillers, the same as the rate for other manufacturers;

(b) the Government of Ontario request a reduction in federal excise duty towards the objective of establishing lower retail prices and a better profit margin; and

(c) the Government of Ontario request that the pyramiding of federal sales tax on excise duty be removed, as it has been on wine.

Respectfully submitted,

G. Ross Herington
President

Montreal, Quebec
January 20, 1964